

★ APPENDIX A ★TABLE OF TRANSACTIONSA. GENERAL

The Government of the United States (U.S.) has a great many types of transactions that finance its cost of operations, and they must be classified in various ways for revenue accounting. The types of transactions may be exchange transactions, nonexchange transactions, other financing sources, revaluations, or transactions not recognized as revenues, gains, or other financing sources. Transactions may be made between a government reporting entity and the public or between two reporting entities within the government (i.e., an intragovernmental transaction). Guidance for the classification of specific revenue transactions occurring within the U.S. Government is set forth in Statement of Federal Financial Accounting Standards No. 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting” (SFFAS #7).

1. This appendix provides information concerning Accounting Standards that may be used for classifying all major transactions that finance the Department of Defense’s (DoD) cost of operations and a significant number of lesser transactions. It is intended that these classifications will provide guidance for classifying all the financing transactions of the Department, including those that are not listed specifically. If a transaction does not fall within any of the classifications included in this appendix, then the SFFAS #7 (available at <http://www.financenet.gov/financenet/fed/fasab/concepts.htm>) should be consulted. For the classifications included in this appendix, the number(s) appearing in parentheses following each classification refer to the paragraph(s) of SFFAS #7 related to that classification.

2. The transactions in this appendix are divided into several groups: exchange transactions that produce revenue; nonexchange transactions; other financing sources; gains and losses due to revaluation; and transactions that produce amounts not recognized as revenues, gains, or other financing sources.

3. Revenue from exchange transactions is subtracted from gross cost in determining the net cost of operations. (Gains and losses from exchange transactions also affect net cost.) Revenue from nonexchange transactions and other financing sources is included in determining the net operating results and, hence, the change in net position.

B. EXCHANGE TRANSACTIONS1. Exchange Transactions with the Public: Revenue.

a. Sales of goods and services. The cost of production for goods and services, such as electricity, mail delivery, and maps, is defrayed in whole or in part by revenue from selling the goods or services provided. The sales may be made by a revolving fund, (such as the Defense Working Capital Fund (DWCF)), or a fund that is not a revolving fund (such as a Military Department’s appropriated fund). Customers of the Department may include private

parties and businesses when authorized by law, including foreign governments, state and local governments, and others not officially representing the federal government. Customer orders (requests for goods and services) must be accompanied by a cash advance unless otherwise specified by law. Each party receives and sacrifices something of value. The sale is, therefore, an exchange transaction, and the revenue is exchange revenue for the entity making the sale.

b. Interest on delinquent taxes and other receivables that arise as the result of custodial operations. Receivables that arise as the result of custodial operations are custodial (or nonentity) assets, held by an entity as an agent for the government as a whole rather than on its own behalf. The interest is an exchange revenue, because each party receives and sacrifices something of value, but it is not related to the costs incurred by the collecting entity. The interest is accounted for as a custodial activity by the collecting entity. If transferred to the general fund, the interest is recognized as exchange revenue in the government-wide consolidated financial statements because it is related to the government's cost of borrowing; if transferred to another entity, it is recognized as nonexchange revenue by the entity that receives the transfer.

c. Reimbursement for cleanup costs. The Department may incur costs to clean up environmental hazards caused by private parties and, in some cases, require these private parties to reimburse it for the costs incurred. Notwithstanding that the government demands the revenue under its power to compel payment, the revenue arises from the action of the private parties and is related closely to the cost of operations incurred as a result of that action. Therefore, the revenue is an exchange revenue of the entity that incurs the cost.

2. Exchange transactions with the public: Gains and Losses.

a. Sales of government assets (where the reporting entity has legal authority to retain the proceeds from the sale of the asset). If the sales price equals book value, there is no gain or loss, because a cash inflow equal to book value is the exchange of one asset for another of equal recorded value and, therefore, not a net inflow of resources. If the sales price is more or less than book value, a gain or loss, respectively, is recognized to the extent of the difference. The amount of the difference ordinarily is a gain or loss rather than a revenue or an expense, because sales of property, plant, and equipment (PP&E) ordinarily represent a nonrecurring inflow of resources. The entire sales price is a gain if the book value of the asset is zero. The book value is zero (a) if the asset is general PP&E that is fully depreciated or otherwise has been written-off or (b) if the asset is stewardship PP&E, for which the entire cost was expensed when the asset was purchased.

b. Acquisition of PP&E through exchange. The cost of PP&E acquired through an exchange of assets with the public is the fair value of the asset at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the asset surrendered, the cost is the fair value of the PP&E acquired. If the fair value of neither the PP&E acquired nor the asset surrendered is determinable, the cost of the PP&E acquired is the cost recorded for the asset surrendered, net of any accumulated depreciation or amortization. In the event that cash consideration is included in the exchange, the cost of PP&E acquired is increased (or decreased) by the amount of the cash surrendered (or received). Any difference

between the cost of the PP&E acquired and the book value of the asset surrendered is recognized as a gain or loss. It is a gain or loss rather than a revenue or expense because, ordinarily, the amount would be an unusual or nonrecurring inflow of resources. If the fair value of the PP&E acquired is less than the fair value of the asset surrendered, the PP&E acquired is recognized at its cost and subsequently reduced to its fair value. The difference between the cost of the PP&E acquired and its fair value is recognized as a loss.

3. Exchange Transactions - Intragovernmental (with the federal government): Revenue.

a. Intragovernmental sales of goods and services by a revolving fund. The cost of providing goods or services by a revolving fund is defrayed in whole or in part by selling the goods or services provided. Performers (DoD activities providing goods and/or services at cost) include DWCF activities, revolving funds within the Military Department reporting entities, revolving funds within the "Other Defense Organizations" reporting entity, and the U.S. Army Corps of Engineers (U.S. Army COE). Customers of the Department include any DoD Component, organization, office or other element; non-DoD federal government agencies; and others officially representing the federal government. Each party receives and sacrifices something of value. Therefore, the proceeds are an exchange revenue.

b. Intragovernmental sales of goods and services by an appropriated fund or trust fund activity (other than a revolving fund). The cost of providing goods or services is defrayed in whole or in part by selling the goods or services provided. Performers (DoD activities providing goods and/or services at cost) include the Military Departments, Defense Agencies, and the U.S. Army COE. Customers of the Department include any DoD Component, organization, office or other element; non-DoD federal government agencies; and others officially representing the federal government. Each party receives and sacrifices something of value. Therefore, the proceeds are an exchange revenue.

c. Employer entity contributions to pension and other retirement benefit plans for federal employees. Employees of the federal government provide service to their employer in exchange for compensation, of which some is received currently (the salary); and some is deferred (pensions, retirement health benefits, and other retirement benefits). This is an exchange transaction, because each party sacrifices value and receives value in return. As part of this transaction, the government promises a pension and other retirement benefits (especially health benefits) to the employees after they retire. The financing of these benefits may include contributions paid by the employer entity to the retirement fund. In broad terms, the employer entity contribution is an inflow of resources to the retirement fund as part of this exchange transaction. More narrowly, it is a payment by the employer entity in exchange for the future provision of a pension or other retirement benefit to its employees. Therefore, it is an exchange revenue of the entity that administers the retirement plan and, thus, is an offset to that entity's gross cost in calculating its net cost of operations. Within the DoD, the reporting of this category of revenue applies specifically to the DoD Military Retirement Trust Fund. Any other DoD Component contemplating the use of this category of exchange revenue must first obtain approval from the Office of the Under Secretary of Defense (Comptroller).

d. Interest on Treasury securities held by revolving funds. A revolving fund conducts a cycle of business-type operations in which the expenses are incurred to produce goods and services that generate revenue, and the revenue, in turn, finance expenses. Revolving funds need capital in their operations and may invest some of that capital in Treasury securities. Since their holding of invested balances and the sale of goods and services are both integral to the fund's operations, the interest on the fund's securities is related to the fund's cost of operations just as is the revenue earned from selling goods and services. Furthermore, the source of the invested balances is predominantly revenue earned from their sales of goods and services, for which the funds incurred costs when that revenue was earned. The interest they receive should, therefore, be classified in the same way as their revenue earned from selling goods and services and should likewise be deducted from gross cost in determining the net cost of operations. For this reason, interest earned by revolving funds should normally be classified as exchange revenue. The source of balances for some revolving funds may not be predominantly exchange revenue. For such exceptions, the interest should be classified in the same way as the predominant source of balances rather than according to the normal rule.

e. Interest on Treasury securities held by trust revolving funds. A trust revolving fund is a revolving fund that also is classified by law as a trust fund. Like other revolving funds, it earns exchange revenue, which is an offset to its gross cost. Trust revolving funds need capital in their operations, just like other revolving funds, the source of which predominantly is the revenue they have earned. When some of their capital is invested in Treasury securities, the interest is related to their cost of operations in the same way as the revenue earned from selling services. Furthermore, the source of the invested balances is predominantly revenue earned from the sales of services, for which they incurred costs when the revenue was earned. The interest they receive should, therefore, be classified in the same way as the interest received by other revolving funds, which is exchange revenue. The source of balances for some trust revolving funds may not be predominantly exchange revenue. For such exceptions, the interest should be classified in the same way as the predominant source of balances rather than according to the normal rule.

f. Interest on Treasury securities held by Trust Funds. A major source of revenue for many trust and special funds (such as the DoD Military Retirement Trust Fund, the DoD Education Benefits Fund, the National Security Education Trust Fund, and the Voluntary Separation Incentive Fund) consists of exchange and other financing sources. When some of their capital is invested in Treasury securities, the interest is related to their cost of operations in the same way as the revenue earned from selling services. Furthermore, the source of the invested balances is predominantly revenue earned from the sales of services, for which they incurred costs when the revenue was earned. The interest they receive should, therefore, be classified in the same way as the interest received by other revolving funds, which is exchange revenue.

g. Interest on uninvested funds received by direct loan and guaranteed loan financing accounts. A guaranteed loan financing account holds uninvested balances as reserves against its loan guarantee liabilities and earns interest on these balances that adds to its resources to pay these liabilities. A direct loan financing account may hold uninvested balances to bridge transactions that are integral to its operations, such as when it borrows from Treasury

to disburse direct loans prior to the time of disbursement; it earns interest on these balances to reflect the time value of money and, thereby, finance the interest it pays on its debt to Treasury. Thus, in both cases, the interest received by the financing account is earned through exchange transactions with Treasury and is an offset to the financing accounts related costs of operations. The interest is, therefore, exchange revenue of the financing account. Within the DoD, the reporting of this category of revenue applies specifically to the Family Housing Improvement Fund, Direct Loan Financing Account (97X4166); Family Housing Improvement Fund, Guaranteed Loan Financing Account (97X4167); Defense Export Loan Guarantee Financing Account (97X4168); and Army Initiative Guarantee Loan Financing Account (21X4275). Any other DoD Component contemplating the use of this category of exchange revenue must first obtain approval from the Office of the Deputy Chief Financial Officer, DoD.

4. Exchange Transactions--Intragovernmental--Gains and Losses--Retirement of debt securities prior to maturity: Revolving Funds and Trust Revolving Funds. Treasury securities held by revolving funds, trust and trust revolving funds (e.g., DoD Military Retirement Trust Fund) are primarily issued in the government account series, which can generally be redeemed on demand. Other Treasury securities held by these funds also may be callable or redeemable on demand. If these debt securities are retired before maturity, the difference, if any, between the reacquisition price and the net carrying value of the extinguished debt should be recognized as a gain or loss by the fund that owned the securities. The gain or loss should be accounted for as an exchange gain or loss if the interest on the associated debt securities is classified as an exchange revenue, and it should be accounted for as a nonexchange gain or loss if the interest on the associated debt securities is classified as a nonexchange revenue. Intragovernmental transactions that produce gains or losses should be classified as producing revenue or expense if they are usual and recurring for a particular reporting entity.

## C. NONEXCHANGE TRANSACTIONS

### 1. Nonexchange Transactions with the Public.

a. User Fees, Harbor Maintenance Trust Fund. This is an example of a tax that is termed a “user fee” by law while classified in the budget as a governmental receipt together with other taxes and duties. It is an ad valorem tax imposed on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation. The receipt is earmarked to the Harbor Maintenance Trust Fund administered by the U.S. Army COE. It is similar in nature to other excise taxes that result from the Government’s power to compel payment and that are dedicated to a trust fund or special fund to be spent for a designated purpose (for example, the gasoline excise tax, which is dedicated to the Highway Trust Fund). It, therefore, should be recognized as nonexchange revenue for the Harbor Maintenance Trust Fund by the U.S. Army COE.

b. Donations. Donations are contributions to the government, i.e., voluntary gifts of resources to a government entity by a non-federal entity. [Note: The term “donations” includes wills disposing of property and judicial proceedings other than forfeitures.] The government does not give anything of value to the donor, and the donor receives only personal satisfaction. The donation of cash, other financial resources, or nonfinancial resources is,

therefore, nonexchange revenue. Trust funds, such as the Army, Navy and Air Force general gift funds, receive donations from the public and should classify those donations as nonexchange revenue.

#### D. OTHER FINANCING SOURCES

1. Appropriations. Appropriations, a form of budget authority, permit an entity to incur obligations and make payments and, thus, are a means of financing the entity's cost. They are not otherwise related to the entity's cost and therefore are not an offset to its gross cost in determining its net cost of operations. More precisely, "appropriations used" is recognized as an other financing source in determining the entity's operating results when the entity receives goods and services or provides benefits, grants, or other transfer payments. Appropriations used are recognized when expenses have been incurred or assets have been purchased with appropriated funds. Appropriations that have been made available for apportionment, but have not been used, are recognized as unexpended appropriations in the entity's capital.

2. Cost subsidies: difference between internal sales price (reimbursement) and full cost. One entity may receive goods or services from another entity without paying the full cost of the goods or services or without paying any cost at all. In these cases, the difference between full cost and the internal sales price or reimbursement (sometimes called a "transfer price") is an imputed cost to the receiving entity. In addition, the financing of the imputed cost also is imputed to the receiving entity. Imputed financing is necessary so that the imputed cost does not reduce the entity's operating results and net position. The imputed financing equals the imputed cost and is recognized as an other financing source. It is not revenue, because the receiving entity does not earn the amount imputed or demand its payment. Within the Department of Defense, examples include military personnel costs not reimbursed by Defense Agencies to the military personnel appropriations and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

3. Cost subsidies: difference between the service cost of pensions (and other retirement benefits), less the employee contributions, if any, and the employer entity contributions. The service cost of pensions (and other retirement benefits) to the employer entity, less the employee contributions, if any, is recognized as a cost to the employer entity. The difference between the employer entity's cost and its contributions, if any, is imputed to the employer entity as part of its recognized cost. The imputed financing is necessary so that the imputed cost does not reduce the employer entity's operating results and net position. The imputed financing equals the imputed cost and is recognized as an other financing source. It is not a revenue, because the employer entity does not earn the amount imputed or demand its payment. (This transaction differs from the immediately preceding transaction, in which an entity does not pay the full cost of the goods or services it receives from another entity. In the present case, the employer entity acquires the services of the employees itself, but another entity pays part of their cost.)

4. Transfer of General PP&E and Stewardship Assets without reimbursement: General PP&E and Stewardship Assets (National Defense PP&E, Heritage Assets, and Stewardship Land) may be transferred from one government entity to another.

a. If the asset that is transferred was classified as general PP&E for the transferring entity and general PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity and as a transfer-in (an other financing source) of capitalized assets by the recipient entity.

b. If the asset that is transferred was classified as general PP&E for the transferring entity but stewardship PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity. No amount is recognized by the entity that receives the asset.

c. If the asset that is transferred was classified as stewardship PP&E for the transferring entity but general PP&E for the recipient entity, it is recognized as a transfer-in (an other financing source) of capitalized assets by the recipient entity. No amount is recognized by the transferring entity.

d. If the asset was classified as a stewardship asset in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity. In such a case, it is not a revenue, a gain or loss, or other financing source.

5. Transfer of capitalized assets. Capitalized assets may be transferred without reimbursement from one Government entity to another. The receiving entity does not sacrifice anything of value, and the transferring entity does not acquire anything of value. Therefore, the transfer is not an exchange transaction. The receiving entity recognizes the transfer-in as an other financing source; the transferring entity recognizes the transfer-out as a negative financing source. The amount recorded by both entities is the transferring entity's book value of the asset.

#### E. REVALUATIONS

1. Revaluation of capitalized PP&E. Capitalized PP&E (general PP&E) may be removed from the general PP&E accounts if it no longer provides service in the operations of the entity because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. At the time it is removed from service, it should be adjusted to its expected net realizable value. Any difference between the previous book value and the expected net realizable value should be recognized as a gain or loss in determining the net cost of operations, because the revaluation results from the entity's operations. The expected net realizable value should be adjusted at the end of each period, and any further revaluation also should be recognized as a gain or loss in determining the net cost of operations. Since the revaluation does not affect obligations incurred but does affect net cost, an amount equal to the revaluation should be recognized in determining the reconciliation between obligations incurred and net cost of operations. A reconciliation is not needed in determining the change in net position, because the revaluation affects net cost and net position equally.

2. Revaluation of inventory and related property. Inventory and related property may be revalued for such reasons as determination that the property is excess, obsolete, or

unserviceable; that stockpile materials have decayed or been damaged; that a loss is estimated on commodity purchase agreements; or that a change has occurred in the net realizable value of commodities valued at the lower of cost or net realizable value. The amount of revaluation should be recognized as a loss or a gain in determining the net cost of operations, because it results from the entity's operations. Assets, correspondingly, are reduced or increased. Since the revaluation does not affect obligations incurred, but does affect net cost, an amount equal to the revaluation should be recognized in determining the reconciliation between obligations incurred and net cost of operations. A reconciliation is not needed in determining the change in net position, because the revaluation affects net cost and net position equally.

**F. TRANSACTIONS NOT RECOGNIZED AS REVENUES, GAINS, OR OTHER FINANCING SOURCES**

1. Borrowing from the public. Borrowing from the public is a means of financing the Government's outlays. However, it is not a net inflow of resources to the Treasury or other borrowing entity, because the asset received (cash) is offset by an equal liability (debt). Therefore, it is not revenue or an other financing source.

2. Borrowing from Treasury, the Federal Financing Bank, or other government accounts. An entity may be provided the authority to borrow from Treasury, the Federal Financing Bank, or other government accounts. Intragovernmental borrowing is a means of financing the entity's outlays. However, it is not a net inflow of resources to the entity, because the asset received (cash) is offset by an equal liability (debt). Therefore, it is not revenue or an other financing source.

3. Disposition of revenue to other entities: custodial transfers. Revenue, primarily nonexchange revenue, may be collected by an entity acting on behalf of the General Fund or another entity within the government on whose behalf it was collected. The collecting entity accounts for the disposition of these by debiting a "nonentity" liability account and crediting its "nonentity" Fund Balance With Treasury account. These transfers, by definition, do not affect the collecting entity's net cost of operations or operating results, nor are they part of the reconciliation between its obligations and net cost of operations. (The receiving entity recognizes the revenue as nonexchange or exchange revenue, depending on its nature, according to the applicable revenue standards.)

4. Sales of different types of government assets. The sale of government assets (other than forfeited property) is an exchange transaction, because each party receives and sacrifices something of value. As a general rule, any difference between the sales proceeds and book value is recognized as a gain or loss when the asset is sold. The remainder of the transaction does not provide a net inflow of resources, so no gain, revenue, or other financing source is recognized. If the sales proceeds equal book value, there is no gain or loss, because the exchange of one asset for another of equal recorded value is not a net inflow of resources. This general rule applies to PP&E, receivables (other than direct loans), foreclosed property associated with pre-1992 direct loans and loan guarantees, and miscellaneous assets. It does not apply to inventory, nor does it apply to forfeited property (as explained in the first part of this paragraph on nonexchange revenue). It also does not apply to the sale of direct loans and the

sale of foreclosed property associated with post-1991 direct loans and loan guarantees. The latter transactions are discussed in subsequent paragraphs.

5. Acquisition of PP&E through exchange. Any difference between the cost of the PP&E acquired and the book value of the PP&E surrendered is recognized as a gain or loss. If the cost of the PP&E acquired equals the book value of the PP&E surrendered, there is no gain or loss (nor a revenue or other financing source), because the exchange of one asset for another of equal value does not provide a net inflow of resources. Therefore, the amount of the transaction equal to the book value of the PP&E surrendered is not recognized as a gain, a revenue, or an other financing source.

6. Donation of PP&E: types that are expensed. The acquisition cost of stewardship PP&E is recognized as a cost when incurred. Such PP&E consists of National Defense PP&E, heritage assets, and stewardship land. When such PP&E is donated to the government, however, no amount is recognized as a cost.

7. Negative subsidies on post-1991 direct loans and loan guarantees. A negative subsidy means that the direct loans or loan guarantees are estimated to make a profit, apart from administrative costs (which are excluded from the subsidy calculation by law). The amount of the subsidy cost is recognized as an expense when the direct loan or guaranteed loan is disbursed. A negative subsidy is recognized as a direct reduction in expense, not as a revenue, gain, or other financing source. The accounting for negative subsidy costs is symmetrical to the accounting for positive subsidy costs.

8. Downward subsidy reestimates for post-1991 direct loans and loan guarantees. A downward subsidy reestimate means that the subsidy cost of direct loans or loan guarantees is estimated to be less than had previously been estimated. The initial subsidy cost is recognized as an expense; a positive subsidy reestimate is recognized as an expense; and a downward subsidy reestimate is recognized as a direct reduction in expense, not as a revenue, gain, or other financing source.

9. Fees on post-1991 direct loans and loan guarantees. The present value of estimated fees is included as an offset in calculating the subsidy cost of direct loans and loan guarantees, which is recognized as an expense when the loans are disbursed. The present value of estimated fees is likewise included as one component in calculating the value of loans receivable or loan guarantee liabilities. When cash is received in payment of fees, the loans receivable decrease by an equal amount (or the loan guarantee liabilities increase by an equal amount). The increase in one asset is offset by an equal decrease in another asset (or by an equal increase in liabilities). Therefore, fees are not recognized as a revenue, a gain, or an other financing source.

10. Repayment of post-1991 direct loans. The present value of estimated loan repayments is included in the calculation of the subsidy cost of direct loans, and this subsidy cost is recognized as an expense when the loans are disbursed. The present value of estimated loan repayments is likewise included in the value of the loans receivable. When cash is received for the repayment of loans, the loans receivable decrease by an equal amount. The increase in one

asset is offset by an equal decrease in another asset. Therefore, cash inflow from the repayment is not recognized as a revenue, a gain, or an other financing source. If the actual repayment is different from the previous estimate, the present value of the difference between cash inflows and outflows over the term of the loan--calculated as of the date of disbursement--is reestimated and is recognized as a subsidy expense or a reduction in subsidy expense.

11. Repayment of pre-1992 direct loans. When pre-1992 direct loans are repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or an other financing source. If the loan is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources.

12. Repayment of receivables: except direct loans. When receivables other than direct loans are paid or repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or an other financing source. If the receivable is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources.

13. Sales of direct loans. The sale of a direct loan is a modification according to the Federal Credit Reform Act of 1990 regardless of whether the loan being sold was obligated after FY 1991 or before FY 1992. The book value loss (or gain) on a sale of direct loans equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. It normally differs from the cost of modification, which is recognized as an expense. This difference is due to the different interest rates used to discount future cash flows for calculating the subsidy cost (and subsidy allowance) when the loan is disbursed and for calculating the cost of modification at a later time. If the sale is with recourse, the present value of the estimated loss from the recourse is also recognized as an expense. Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. The amount of cash inflow equal to book value is not a net inflow of resources to the entity, because it is an exchange of one asset for another of equal recorded value. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or an other financing source.

14. Sales of foreclosed property: associated with post-1991 direct loans and loan guarantees. The net present value of the cash flow from the estimated sales of foreclosed property is included in calculating the subsidy cost of post-1991 direct loans and loan guarantees. This subsidy cost is recognized as an expense when the loans are disbursed. When property is foreclosed, the property is recognized as an asset at the net present value of its estimated net cash flows. When the foreclosed property is sold, any difference between the sales proceeds and the book value (i.e., the net present value as of the time of sale) requires a reestimate of the subsidy expense, which is recognized as a subsidy expense or a reduction in subsidy expense. The amount of cash flow equal to book value is an exchange of one asset for another of equal recorded value and, therefore, is not recognized as a gain, a revenue, or an other financing source.

15. Deposit fund transactions. Deposit funds are accounts outside the budget that record amounts that the government (a) holds temporarily until ownership is determined or (b) holds as an agent for others. Deposit funds, if held by a reporting entity, are classified as “nonentity” assets until transferred to the entity for which they are being held.